



Petroleum Market Report

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Energy Information Administration
Office of Oil & Gas

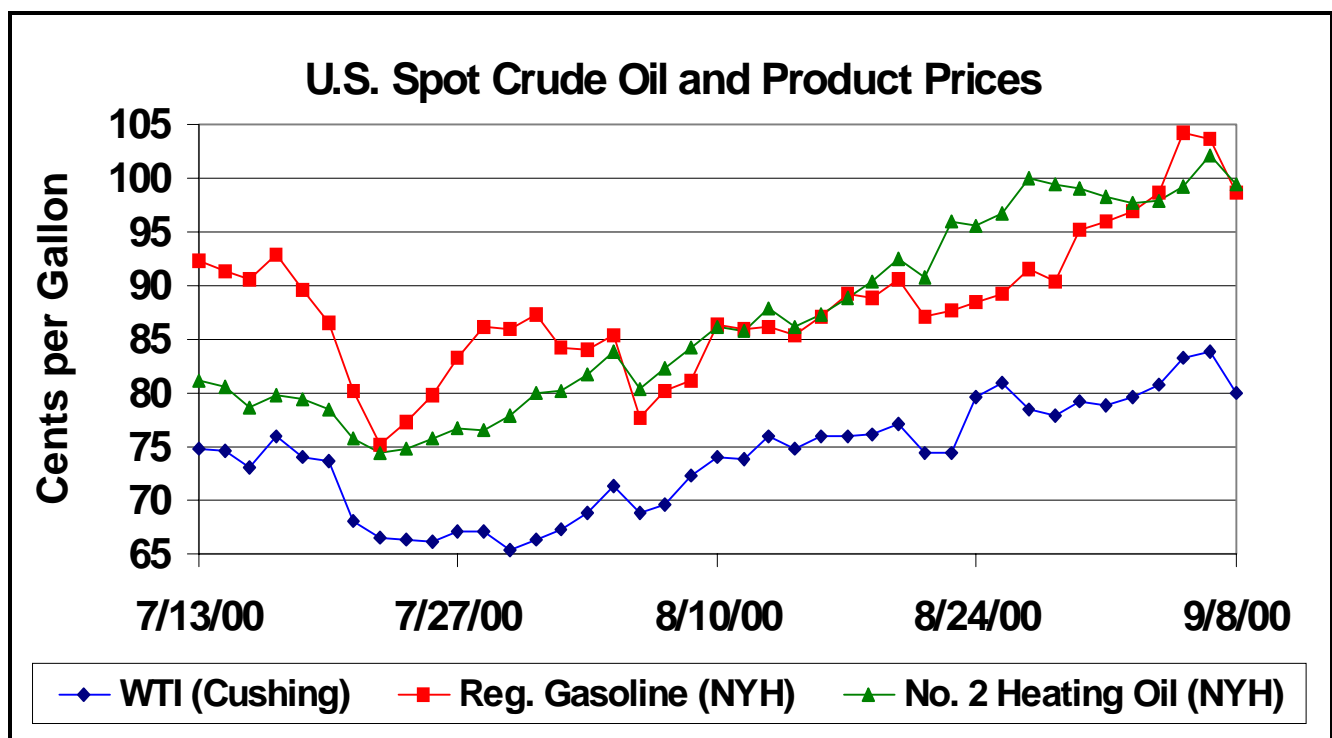
MARKET SUMMARY

Anticipation of the September 10 OPEC meeting dominated U.S. petroleum spot and futures markets last week, with most prices ending with only small net gains after pre-weekend profit-taking largely reversed earlier increases. Following the extended Labor Day holiday weekend, market attention focused on the upcoming meeting, and the size of the increase in crude oil output expected to result. Early in the week, talk continued to center on the 500,000-barrel-per-day "automatic" increase from the price band mechanism, widely seen as too small to balance markets, and prices shot to new 10-year highs. However, pre-meeting caution and talk of a 700,000-barrel-per-day increase pulled prices down on Friday.

Crude oil - prices jumped briefly to their highest levels since the Persian Gulf War in November 1990, amid expectations that Sunday's OPEC meeting in Vienna would yield too small an increase in production to reverse the alarming downtrend in world oil inventories. OPEC members released a variety of pre-meeting comments, including Iran's assertion that no more than a 500,000-barrel-per-day increase was needed. Saudi Arabia attempted to stem further price increases by citing existing output 600,000 barrels over quota, and favoring a 700,000-barrel increase at the meeting. U.S. Energy Secretary Bill Richardson said on Friday that the U.S. would consider "all options" if OPEC did not act to bring prices down.

Gasoline - was the most volatile element in U.S. markets, despite the pre-OPEC hype and the end of the peak summer driving season the previous weekend. Prices east of the Rockies rose on declining stocks and an East Coast refinery fire, while California markets cooled as recent refinery concerns eased.

Distillate - directionally followed crude oil, but posted larger gains, as worries over winter fuel supplies continued unabated. The NYMEX front-month futures price hit a new post-Gulf War record, though New York Harbor spot prices fell well short of their February 2000 record high.



CHRONOLOGY OF RECENT MARKET EVENTS

- 9/8 - falling** - crude oil and product prices dropped sharply in profit-taking ahead of the OPEC meeting starting Sunday in Vienna. WTI crude oil fell more than \$1.50 per barrel, and gasoline 5 cents or more per gallon, amid indications that OPEC might increase output by at least 700,000 barrels per day, and that the U.S. would consider “all options” if OPEC did not take sufficient action.
- 9/7 - mixed** - futures and most spot prices moved further upward, with WTI crude oil reaching yet another post-Gulf War high, this time over \$35 per barrel. Prices continued to gain despite a crude oil stockbuild in the delayed weekly supply reports, and a reported promise by Saudi Arabia for a 700,000-barrel-per-day increase in OPEC oil output.
- 9/6 - rising** - all prices gained for a second day, led by gasoline, taking crude oil prices to their highest level since the Gulf War in 1990. Pre-meeting statements by OPEC members sent conflicting signals, with Iran insisting that no more than 500,000 barrels per day of additional production is needed, and Saudi Arabia admitting existing overproduction of 600,000 barrels per day.
- 9/5 - rising** - prices rose across the board, as traders returned from the extended Labor Day weekend to focus on the upcoming OPEC meeting. Consuming nations have expressed concern that the 500,000-barrel-per-day increase that would result from the “price band” mechanism would fall short of meeting market needs, while the likelihood of a larger increase appears questionable.
- 9/1 - mixed** - distillate prices ended lower on profit-taking during a shortened NYMEX trading session ahead of the extended Labor Day weekend, while crude oil and gasoline posted gains. The French prime minister warned OPEC of the consequences of high oil prices, amid widening protests against high fuel prices in France.
- 8/31 - mixed** - crude oil and distillate prices eased slightly ahead of NYMEX September product contract expiration at the end of trading, aided by reports that Saudi Arabia would push for an OPEC output increase of more than 500 thousand barrels per day. Gasoline prices remained strong, boosted by a fire at Sun’s Marcus Hook refinery.
- 8/30 - mixed** - gasoline led most prices higher, following release of weekly supply reports showing a larger-than-expected stockdraw through August 25. Crude oil stocks, however, rose as expected, while markets reacted cautiously to Saudi Arabia’s statement that it was working with other OPEC members to determine a suitable increase in the group’s oil output.
- 8/29 - falling** - spot and futures prices fell moderately in profit-taking ahead of the API and EIA weekly supply reports, expected to show crude oil stockbuilds. The Venezuelan and Mexican energy ministers, in a joint statement, reiterated their belief that world oil supplies are currently adequate.
- 8/28 - mixed** - most prices moved solidly upward, led by distillates, as winter supply concerns continue to grow. New York Harbor heating oil topped \$1 per gallon for the first time since February 8. Spot WTI crude oil prices adjusted downward, as trading rolled forward to October.